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Financial Markets

Irving Trust

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Last week the Fed released the minutes of the Federal Open Market Committee meeting of February 8-9. Market commentary on these minutes has focused on the fact that four of the voting FOMC members dissented from the adopted policy course set at that meeting. More importantly, the deliberations of that meeting set Fed policy at its most fundamental level: the target paths for the monetary aggregates in 1983. What insight can be gleaned from these minutes?

The dissent itself is not that newsworthy. Monetarist criticisms were to be expected from FOMC members who tend toward monetarism. (As of February, when the committee met, the rate of money growth had been very rapid.) The opposition of Mr. Black and Mrs. Horn reflected their desire to place more weight on the narrow monetary aggregate M1 instead of the broad aggregate M3. They tended to minimize any anomalies that could be associated with the behavior of M1, feeling instead that a fast-growing M1 was bound to be counterproductive if its growth wasn't stemmed soon. They also felt that M1 was more controllable than other aggregates. These are classical monetarist criticisms. No concern is registered over the possibility that the fledgling recovery might be jeopardized by tighter policy now. However, Mr. Black added that he was in favor of moving gradually to arrest money growth; but at the same time, he wished to have target ranges lower than those that were set (e.g., 4%-8% was adopted for M1).

Mr. Ford took the hardest and clearest line. Money, he argued, was growing too fast. He felt that the combination of fiscal and monetary policy was dangerous and could lead to a private-credit shortage in 1984 while aborting the recovery by producing high inflation and interest rates. Mr. Wallich did not address the current policy course but instead the parameters for this year's policy, holding that the money growth ranges for 1983 should be somewhat lower. He felt that lower ranges could accommodate recovery and minimize the risk of stimulating inflation.

None of these dissenters is a voting member of the FOMC now except Mr. Wallich. The others were changed in the usual March rotation of Federal Reserve District Bank presidents who sit on the FOMC and cast ballots. The net effect of this shift is to bring slightly less doctrinaire policymakers into the voting process. Mr. Corrigan, one of the new FOMC members, can be expected to be on the same wavelength as Mr. Volcker. They worked together at the New York Fed; then Mr. Corrigan followed Mr. Volcker to Washington on special assignment. Subsequently he took his current post in Minneapolis. Mr. Morris, from the Boston Fed, is a well known opponent of the strict monetarist approach. The other two presidents come from the Chicago and St. Louis Feds and are apt to have more monetarist leanings.

The change in personalities is important, and a moderate change in policy has accompanied their term. Mr. Volcker has already cast a wary eye at M1, and the downtrend in interest rates has been arrested--and replaced by an uptick. Neither the FOMC nor the Fed staff had anticipated a continued fast growth in M1 in February. At that time, they felt M1 would return to the target range, and the committee's majority felt that reduced reserve restraint would be acceptable. As this has not happened, the Fed is warily "leaning against" this unexpectedly rapid growth of M1. Interest rates remain firm.

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Market Yields

	4/8/83 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	10.50%	10.50%	16.50%
Effective since	2/28/83		
Discount Rate at Federal Reserve Bank	8.50	8.50	12.00
Federal Funds	8.75	8.88	14.38
Repurchase Agreements	8.75	8.75	14.00
U.S. Treasury Issues			
Bills			
3 months	8.61	8.67	13.80
6 months	8.90	8.67	14.27
1 year	9.06	8.61	14.28
Coupons			
2 years	9.68	9.63	14.27
4 years	10.03	10.25	14.12
7 years	10.40	10.50	14.03
10 years	10.50	10.88	13.96
Long Bond	10.55	10.38	13.50
Negotiable Certificates of Deposit-Secondary Market			
1 month	8.80	9.00	14.70
3 months	8.80	9.10	14.70
6 months	8.95	9.15	14.70
1 year	9.30	9.50	14.80
Banker's Acceptances			
1 month	8.85	9.00	14.65
3 months	8.85	9.05	14.75
6 months	8.90	9.20	14.70
Eurodollar Deposits			
1 month	9.44	8.75	15.38
2 months	9.50	8.75	15.50
3 months	9.56	9.00	15.50
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	8.63	9.14	14.49
1 month	8.81	9.19	14.76
3 months	8.81	9.20	14.44
Bank Holding Companies			
1 month	8.81	8.68	14.10
Dealer Placed:			
3 months	8.97	8.81	NA
New AA Corporate Utility Bond	11.85	12.15	15.90
Tax Exempt			
6 month Project Notes	4.60	5.00	7.90
1 year AAA Bond	5.25	5.25	8.50
5 year AAA Bond	6.50	6.50	9.75
20 year AAA Bond	8.85	8.75	11.75

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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